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FOCUS

Health trend takes center stage

Focus section follows page 18

DESIGN & DECOR

Innovation doesn't need to be costly

See story on page F8

EDITOR'S CORNER

Risky goal: 'We'll ...s'

...n/Page F3

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NRN Photo

Maggie Benson, left, owner of the new McDonald's hospital unit in Dallas, with Ronald McDonald at the opening.

California show goers sing labor crisis blues

More woes: health costs, dramshop, drugs

By Richard Martin

LOS ANGELES — When they weren't tasting their way through 1,800 exhibits of food and equipment, California restaurateurs at the giant Western Restaurant Convention here had their appetites dulled by fears about the potential crippling costs of mandatory health benefits, third-party liquor liability, and the war on drugs.

More on the Calif. show
See page 7

Warnings about the looming state legislation added to the woes of conventioneers who were already depressed by lackluster sales, manpower scarcity, and dramatic labor-cost inflation caused by California's adoption of a $4.25 minimum wage last year. The wage hike was compounded by the state Supreme Court's rejection of a proposed 75-cents-an-hour tip credit for servers.

Jim Pardini, president of the hosting California Restaurant Association, told a press briefing that sales at the state's restaurants have been stunted in part by consumers' resistance to the menu-price hikes many operators took to help compensate for the 27-percent rise in the bottom-tier wage.

Restaurateurs attending the CRA's annual trade show echoed Pardini's assessment. "Everybody I've talked to is crying the blues," said Al Le-

*(See **CRA**, page 72)*

NRN Photo

Local food-service operators browse a booth at the CRA show.

McD checks in to Dallas hospital

By Tracey Taylor Woodard

DALLAS — McDonald's has opened its 14th — and largest — hospital unit in Parkland Memorial Hospital here.

Nestled between the main hospital building and the outpatient clinic, the two-story, 8,700-square-foot building, said to be the state's largest McDonald's, is not visible from the street.

"It's a narrow market," said Larry Marshall, regional vice president of McDonald's Corp. "We don't expect to get

*(See **McD**, page 73)*

FOOD WATCH

A tropical sweet tooth

ELK GROVE, Ill. — In an effort to promote its service to Hawaii, United Airlines is featuring a sweet and fruity taste of the tropics on selected flights.

Of the five special lunch and dinner dishes UAL is plating, four use baked chicken legs.

They are served variously with a macadamia-nut or macadamia-and-fruit stuffing, a curry sauce, or a plum sauce topping.

For meat lovers United offers Beef Teriyaki, short ribs flavored with pineapple and coconut.

Special Mai Tai cocktails are priced at $3 each.

Breakfast flights feature pancakes sweetened with papaya, pineapple, banana, cherries, and guava.

— Rick Telberg

NJ operators in the dumps

Annual convention ignites anger over garbage rules

By Rajan Chaudhry

EAST RUTHERFORD, N.J. — Restaurant operators at the state association's annual convention here voiced anger and frustration over a growing tangle of solid-waste disposal laws.

Although few argued with the intent of the legislation, attendees said the laws, which vary widely by county, are forcing them to spend more on labor and carting, to waste valuable storage space, and to change the way they buy from manufacturers.

New Jersey Restaurant Association

The garbage crisis, which is becoming an increasingly divisive issue across the nation, emerged as the key topic among the reported 10,000 attendees of the New Jersey Restaurant Association's Restaurant and Hospitality Expo '89 at the Meadowlands.

*(See **NJ OPERATORS**, page 73)*

Teets set to lead MUFSO panel

By Charles Bernstein

NEW ORLEANS — John W. Teets, chairman and chief executive of the Greyhound Corp., will moderate a special leadership panel discussion Monday morning, Sept. 11, at Nation's Restaurant News' 30th annual Multi-Unit Food Service Operators (MUFSO) conference in the New Orleans Hilton.

MUFSO 89

This panel will follow a keynote address by Teets on "A New Kind of Leadership for a New Kind of Decade." That will set the tone for the entire three-day conference themed "Fitness for Success."

The other panelists are Samuel "Sandy" Beall, president of Morrison Inc., Mobile, Ala.; Alvin Copeland, chairman of Popeyes, New Orleans, and Church's, San Antonio; Stephen Elmont, president of Creative Gourmets, Charlestown, Mass.; and Robert Giaimo, president

*(See **MUFSO**, page 73)*

INSIDE NRN

News

Alternate labor sources key to recruiting 7
Details, execution can make or break a promotion 7
AMI names execs to head divisions 50
Hotel employees donate $300,000 to culinarians 50
Plantation, Cubs team up to help young patients 51
Rymer vp McCarthy to advise shrimp plan 51
Richmond contest taps Texas team for Best Ribs title . 54
Killington to host Taste of Vermont 54
NY Seafood Show set for October 54
McTigue named Chef of the Year 55
Garcia exits Eat Ribs 55
Hevenor named marketing head for Menasha 59
ARA taps Cerullo as Northeast vp 59
Clark takes professorship at University of Hawaii 70
Industry veteran Rome named area vp for Allie's 70
Maui Lani to host culinary event 70

Focus

Section follows page 18
Bernstein/Risky Goal: We'll be No. 1 in sales F3
Viewpoint/Hospitality students need broad educations F4
Viewpoint/'80s offer rude awakening from operator bliss F4
Cover Story/Health trends take center stage F6
Cover Story/Innovative doesn't have to mean costly .. F8
Cover Story/Designer Profiles F10
Cover Story/Designers pick favorites F12

Columns

Hochstein/Three winners for California 51

Food

Fabricant/Catfish head out of the South 11
What's Hot/Birmingham, Ala. 11
Food News Digest 11

Marketing

Country Kitchen spices up 'homey' image 12
Marketing Digest 12
Ad Watch/ 12

Financial

National Pizza buoyed in 2nd bid for Skippers 14
Financial Digest 14
Food Price Outlook 14
Fact File 14
Stock table 74

Features

Letters F3
Reporters' Journal F4
Name Game F4
Where Are They Now. .F4
Flashback F4
Product News 58, 60
Classifieds 61-70
Advertiser Index 72

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Pre-MUFSO ..... Sept. 4
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NEWS DIGEST

Ark leases site of DC's Potomac

WASHINGTON — Ark Management, the New York-based operator of several high-volume restaurants along the East Coast, has secured the lease to the site here that formerly housed Potomac, the showcase restaurant that bombed under impresario Warner LeRoy.

Ark hasn't decided which type of restaurant to open at the location, said president Mike Weinstein. "We were able to make a fair deal, and that was our first concern," he said. "Secondarily, we'll decide what concept to put there. We're at that stage now."

LeRoy, the creator of such famous New York restaurants as Maxwell's Plum and Tavern on the Green, opened 1,000-seat Potomac amid much fanfare in 1986 only to close it 15 months later after filing for bankruptcy protection.

Higby's agrees to purchase by treat specialist Spinner

RANCHO CORDOVA, Calif. — J. Higby's Inc., operator of the 75-unit J. Higby's frozen-yogurt chain, said it has agreed to be acquired by Spinner Corp., a Chino, Calif.-based confectioner.

The parties indicated that Spinner would swap preferred stock for Higby's assets but declined to disclose further details until both companies' directors approve the exact terms.

Spinner is a supplier and retailer of candies and nuts. Its 235 retail outlets include units of Morrow's Nut House, Pacific Nut, and Miss Saylor's Candies.

Texas lawmakers fail at workers comp deal

AUSTIN, Texas — The special session of the Texas State Legislature has ended with the House and the Senate unable to reach a compromise on a workers compensation bill.

"I think the Dallas newspaper summed it up," said Ritchie Jackson, executive vice president of the Texas Restaurant Association. "Trial lawyers 1, Texans 0."

During the special session the Texas Senate, backed by a trial lawyers group, passed a bill that was modified substantially by the House, but it never got further than that, Jackson said.

"It is such a pocketbook issue," he noted, "that it made it impossible for the Legislature to resolve it in the first session. Continuing grass roots pressure will force its resolution, however."

Another special session is tentatively scheduled for mid-November.

KFC taps Pizza Hut exec for key marketing post

LOUISVILLE, Ky. — In a push to stoke new fire in its marketing programs, Kentucky Fried Chicken has tapped an accomplished executive from sister division Pizza Hut to head its marketing division.

Bill McDonald, a 10-year Pizza Hut veteran who spent the last four years as vice president of national marketing, has been named KFC's senior vice president of marketing.

He earlier had been director of marketing for Frito Lay, the snack food subsidiary of Pepsico, parent company of both KFC and Pizza Hut.

McDonald is credited for his involvement in Pizza Hut's two-for-the-price-of-one campaign. He will report to Steve Fellingham, president of KFC U.S.A.

Paragon selling Murphy's as part of restructuring

SAN DIEGO — Paragon Restaurant Group, the industry's 10th-largest specialty dinner-house operator, has agreed to sell its 19-unit Carlos Murphy's chain to an unidentified firm as part of a planned strategic restructuring.

The privately owned company, operator of 52 Hungry Hunter and Mountain Jack's steak restaurants and the 33-unit Rusty Pelican seafood group, said it retained the investment banking firm of Donaldson, Lufkin & Jenrette to evaluate further alternatives. Paragon might recapitalize or refinance debt and "very well might" sell additional restaurant operations, marketing vice president Bill Seckinger said.

Acquired by management in a $112.5 million leveraged buyout in 1986, Paragon reported sales of $216.5 million last year. The company sees positive or stable trends in its meal counts, sales, and cash flow and will gain "as much breathing room as we'd ever want" from the pending sale of Carlos Murphy's, Seckinger remarked.

Heavy rains wash out Texas oyster crop

GALVESTON, Texas — Heavy rains have nearly wiped out the marketable oyster crop in Galveston Bay and may push prices as high as $30 a gallon.

Galveston Bay, which produces a large portion of the nation's oysters, experienced heavy freshwater runoff during tropical storm Allison and hurricane Chantal, which lowered the salinity in the bay water.

Runoff from the Trinity River has killed from 50 percent to 90 percent of the market-sized oysters (3 inches or larger), experts say.

Operators show slow 3rd Q start

By Rajan Chaudhry

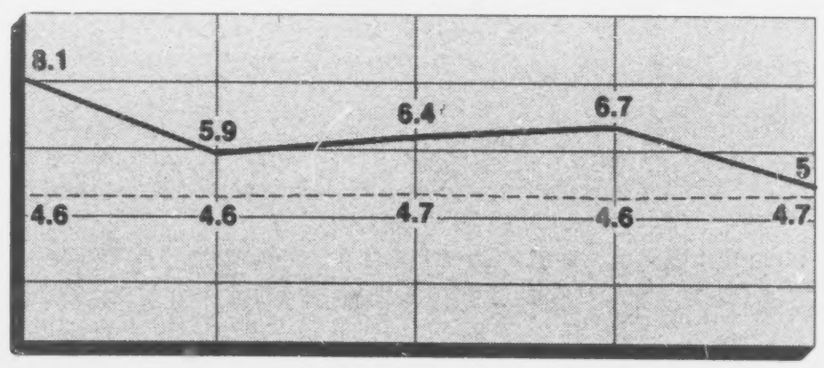
WASHINGTON — Preliminary government figures suggested that the nation's restaurants and bars got out of the gate slowly in the third quarter, with sales growing just 5 percent in July.

Menu price inflation rose at a 4.7-percent unadjusted rate in July, up 0.1 percentage point over June's figure, according to the Labor Department's Consumer Price Index for food consumed away from home.

And the gap between price hikes at supermarkets and those at restaurants closed for the second straight month, according to the Labor Department, with Food at Home inflation falling to a six-month low of 6.4 percent.

Not all the news here was bad, however, as wholesale food price inflation slowed to 4.8 percent, its lowest year-to-year increase since November 1988, according to the U.S. Labor Department's Producer Price Index of finished consumer foods.

SALES GROWTH LOSES STEAM
(in percent)



Sources: U.S. Census Bureau, U.S. Department of Labor. Figures are not adjusted.

Lunch checks posted the biggest gain of the month, exceeding 5 percent; dinner-price hikes brought up the rear with a 4.3-percent rate of increase; and the price of other meals and snacks grew at a 4.5-percent pace.

Fresh and dried vegetables once again put pressure on producer prices, rising at 19 percent year-over-year. Prices of eggs followed suit, accelerating at a 16-percent unadjusted rate. Wholesale prices of beef, veal, dairy products, and processed fruits and vegetables all advanced at about 6.5 percent.

Processed young chickens, with a fall of 2.5 percent over last year's figure, joined the price losers for the first time this year. Other losers included milled rice, down 11.3 percent, and shortening and cooking oils, down 7.6 percent.

FINANCIAL NEWS

National Pizza buoyed in 2nd bid for Skippers

By Milford Prewitt

PITTSBURG, Kan. — National Pizza Co. is heartened that its second attempt to acquire Skippers Seafood 'n' Chowder House Restaurants has not triggered the ire of Pizza Hut or resistance from the Bellevue, Wash.-based seafood chain.

"Pizza Hut is aware of our interests and has chosen not to take exception," said J.J. Fitzsimmons, senior vice president and chief financial officer of National Pizza, the largest Pizza Hut franchisee, with 337 restaurants in 13 states.

"We're fully aware of their intentions and are staying in close contact with them for counsel and advice," said Roger Rydell, a Pizza Hut spokesman. "We advise all franchisees on our position on a one-to-one confidential basis in these kinds of matters."

Skipper's, apparently mollified by National's insistence that it wants a friendly settlement, has put no road blocks before its suitor.

Skipper's executives said that while they are aware of National's 9.4-percent ownership of the company, it will not interfere with the company's operations.

Pizza Hut's benign scrutiny and Skipper's business-as-usual attitude are in contrast to the confrontational roles both played when National made a bid for Skipper's just seven months ago. In that episode Pizza Hut warned National that the franchise agreement contained a provision for revoking contracts when a licensee acquired another food concept.

Fitzsimmons revealed in retrospect that Skipper's defense was a more formidable obstacle than Pizza Hut's threats. "We couldn't do it before because of the price," Fitzsimmons stated.

Skipper's has a number of operating and marketing qualities that make it an attractive target, Fitzsimmons said, outlining his company's ardor for the seafood operator. And he revealed that National's sense of urgency derives from a feeling that it has gone about as far as it can go as a Pizza Hut franchisee.

He said Skipper's position as a segment leader with no chain competitors in its markets, its strong management team, and its modest food and operating costs make it a particularly attractive takeover candidate.

"We had been looking at a number of chains for some time because we realized the day will come when we would be unable to grow in the Pizza Hut system," Fitzsimmons said, "and that growth is not entirely in our hands.

"We've always appreciated the way Pepsico goes after segment leaders," Fitzsimmons continued. "Well, we can't afford to buy McDonald's the way they could Kentucky Fried Chicken, but in its own right, Skipper's is a segment leader."

Although Shoney's Captain D's and Jerrico's Long John Silver Seafood Shoppes are large competitors in Skipper's seafood segment, Fitzsimmons noted that Skipper's has a virtual lock on the Pacific Northwest. Moreover, Fitzsimmons said that unlike the three other major fast-food segments, seafood is unique in that there are no legions of mom-and-pop operators — as is the case in the hamburger, pizza, and chicken segments — nipping away at Skipper's market share in the Northwest.

Another quality that makes Skippers desirable is its senior management corps, Fitzsimmons said. He noted that Everett "Jeff" Jefferson, Skipper's president and chief executive officer and a former Pizza Hut manager, and Bob Taft, senior vice president and chief operating officer, were "people we know and respect."

One of the potential stumbling blocks that dampened National's bid in the past and may arise in the current negotiations is a difference of opinion between National and Pizza Hut over clauses in the franchisee agreement concerning restaurant acquisitions.

Fitzsimmons said Pizza Hut was unswayed by National's use of the Riese Organization as an example of a Pizza Hut franchisee that successfully operates other concepts.

The Riese Organization operates more than 300 fast-food and full-service restaurants, representing some 40 different concepts, in the New York metropolitan area.

As he explained it, Pizza Hut pointed out that the Riese Organization is a privately held company and is guided by a different set of franchisee requirements.

Since National Pizza is a public company, Pizza Hut wanted to require that any new restaurant acquisition be separately incorporated, Fitzsimmons explained.

Fitzsimmons also indicated that subsequent discussions between National and Pizza Hut have smoothed out the major disagreements over contract language.

"We're pretty optimistic," Fitzsimmons said. "The main point now is a friendly, negotiated acquisition."

Meanwhile, National's publicized interest in Skipper's has not resulted in any sharp swings in the seafood company's stock price. For the past month, Skippers stock has been trading between $9 and $9.40 per share. Its 52-week high was $10.50. And its 52-week low was $5.

For the first fiscal quarter ended June 27, National Pizza posted a 38-percent rise in net income, to $3.6 million, on a 21-percent increase in net sales, to $32.7 million.

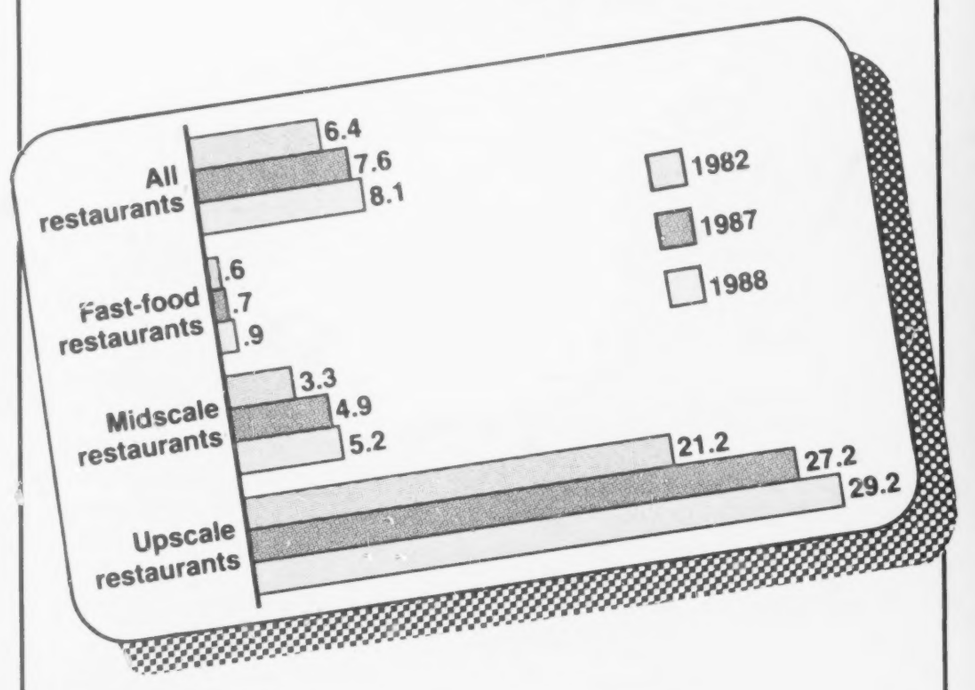
Real comparable-store sales improved 6.5 percent over last year's figure.

FACT FILE

A look at the statistics shaping the industry

CREDIT-CARD USE ON THE RISE AT RESTAURANTS

(percent of restaurant expenditures that are charged)



Source: CREST

NRN FINANCIAL DIGEST

Horn & Hardart loses $1.5M

NEW YORK — The Horn & Hardart Co. said a 92-percent drop in restaurant operating profits. higher interest expenses, and onetime administrative costs caused a loss of $1.5 million for the second quarter, compared with a profit of $37,000 a year ago.

Revenues for the quarter ended July 1 rose 3 percent from last year's figure, to $142.5 million, Horn & Hardart said.

Profits at the company's restaurant group plunged to $295,000 in the latest quarter from $3.7 million in the comparable period of last year. And revenues fell 22 percent, to $39 million, as a result of restaurant closings.

The company said its 82-unit International King's Table operation lost money in the second quarter, and its Burger King restaurants suffered declining profitability. But Bojangles', the company's fast-food chicken operation, was profitable, it said.

Horn & Hardart's direct marketing operations fared better than its restaurants, posting a 319-percent increase in operating profits, to $5.6 million, on an 18-percent gain in revenues, to $102 million.

For the first six months of 1989, the company's losses grew 110 percent, to -$3.4 million, while revenues rose 10 percent, to $261.7 million.

Pantera's sells cheese company

DALLAS — Pantera's Corp. has sold its Branch Cheese Co. subsidiary to International Cheese Co. to raise capital and cut debt. Terms were not disclosed.

Pantera's announced last month that it was burdened by a severe debt load and was willing to sell some of its 215 Pizza Inn restaurants to raise capital. The company also said it had retained a New York venture capital group to help it restructure the debt.

The sale of its Branch Cheese subsidiary is the first transfer of assets since the company acknowledged its travails.

Earlier this month Pantera's said some of its secured lenders agreed to waive for 30 days any default caused by the company's inability to make scheduled installment payments.

Sea Galley to sell 17 restaurants

MOUNTLAKE TERRACE, Wash. — Sea Galley Stores Inc. said it has agreed to sell 17 Sea Galley restaurants to Keg Restaurants U.S.

The agreement, the terms of which were not disclosed, involves five restaurants in Colorado, five in Oregon, and seven in Washington.

Keg U.S., a unit of Keg's Restaurants Ltd. of Vancouver, British Columbia, said it would convert those Sea Galleys that have potential to its Keg's steak and seafood concept.

Sea Galley said the sale would provide funds for the growth of Sea Galley restaurants in Washington, Idaho, Arizona, and Alaska and the pursuit of development of its American Ranch & Home store concept on Washington.

Sea Galley lost more than $2.3 million in its latest six months.

FOOD PRICE OUTLOOK

Tomato pack larger this year

Prices of **canned tomatoes** and **tomato products** should decline this fall as canners pack enough to fill the distribution pipeline and replace stocks that were depleted by last year's small pack. This year's delivery of tomatoes to packing plants looks as if it will reach 8.5 million tons, according to the U.S. Department of Agriculture. Last year it was only 6.5 million. Imports of canned tomatoes have been strong, with most of them in 6/10 size.

Tomato paste imports were also up. In 1988 paste imports totaled 107.4 pounds; as of June 1 of this year, 135 million pounds were brought into this country, most of it in 6/10s. The largest importers are Mexico and Brazil, which totaled 63 percent of the imports last year.

Prices for **farm-raised catfish,** both fresh and frozen, continue to hold steady, as both production and demand have increased; production running about 16 percent higher than last year with demand matching or exceeding it slightly. Don't expect to see prices drop as long as demand stays strong this year.

Green coffee prices are still the lowest in years, but U.S. roasters are not buying heavily. Most complain they still have large inventories to work off, and sales don't pick up strongly until mid-fall or later. Lower prices for **roasted coffee** probably won't be posted until well into the winter season.

Chicken production is up 5 percent to a new record, but demand is continuing to keep up. As a result, prices are now down about 10 percent from last year at this time.

— **Patt Patterson**

FOCUS | OPINION

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Publisher JAMES C. DOHERTY

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REGIONAL OFFICES

Atlanta 278 Spring Drive, Roswell, GA 30075, 404-998-6966
Southeast Editor Jack Hayes

Boston 1 Gateway Center, Newton, MA 02158, 617-527-6394
Area Manager Chris McCoy

Cleveland Summit One Building, 4700 Rockside Road, Independence, OH 44131, 216-642-3420
Office Manager Martha Smith
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Midwest/Chicago Editor Carolyn Walkup
District Manager Gary Knuth
Area Managers John McGuire, Ed Weisbrod, Tom LaPalermo

Houston 2851 Wallingford Drive, Suite 108, Houston, TX 77042, 713-977-7924
Southwest Editor Tracey Taylor Woodard

Los Angeles 606 N. Larchmont Blvd., Los Angeles, CA 90004, 213-464-8321
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San Francisco Editor Alan Liddle
District Manager Steve Conca

Japan Diamond-Friedman Ltd., Chain Store Age News, Japan 1-4-2 Kasumigaseki, Chiyoda-ku, Tokyo, Japan, 504-6750

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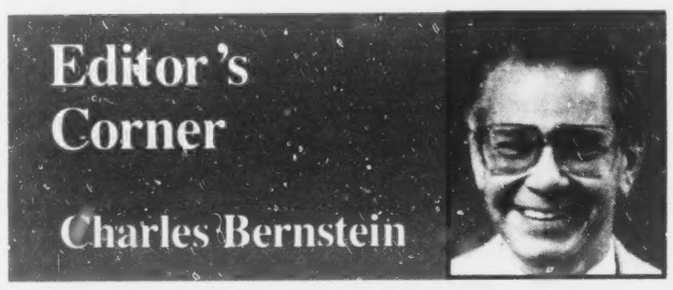
Risky goal: 'We'll be No. 1 in sales'

Last week we presented a scenario by which pizza might eventually overtake burgers as the No. 1 category in food-service sales. This would be aided and abetted by McDonald's "McPizza," which is being tested and may be rolled out by next year.

In any case, pizza undeniably has emerged as a very hot category, and chains are fighting for market supremacy. Pizza Hut, Domino's Pizza, and Little Caesar are leading the segment by wide margins.



Each of the Big 3 in the pizza derby has its own market niche and a clear dominance in its own section: Pizza Hut in the sit-down business, Domino's in home delivery, and Little Caesar in take-out.

Inevitably, Pizza Hut has tried to counter Domino's home-delivery dominance and is moving into its own delivery system. But Little Caesar is holding to its market and merely attempting to widen its edge in the take-out category.

There already is a natural rivalry between Little Caesar, based in the Detroit suburbs, and Domino's Pizza, in Ann Arbor, Mich. It got to the point where Little Caesar founder-chairman Michael Ilitch bought the Detroit Red Wings ice hockey team five years ago, just after Domino's founder-chairman Thomas Monaghan purchased the Detroit Tigers baseball team. No love is lost between the two food-service and sports executives.

We have always admired Monaghan and Domino's for sticking to their one and only market niche — home delivery. They do it exceptionally well and have painstakingly implemented a smooth system — which is not an easy task, as Pizza Hut discovered.

However, it is puzzling to see Domino's now setting a goal of overtaking Pizza Hut in total sales. It conceivably could happen in the next several years, with Domino's already having closed the gap to $2.6 billion systemwide sales, compared with $3.1 billion for Pizza Hut. To put it another way, Pizza Hut enjoys a 37.7-percent market share, Domino's 31.6 percent, and Little Caesar 14.6 percent, among the eight leading pizza chains.

David Black, a onetime Domino's delivery driver who at age 40 recently moved up from Domino's operations vice president to president, has now stated his intention of overtaking Pizza Hut and becoming the No. 1 pizza chain. He wants to at least double the number of units, from 5,000 to 10,000 over the next decade.

For the first time, Domino's — feeling it must widen market share — has rolled out a new product, deep-dish pizza. This could generate more sales, but it might clog up the fine-tuned preparation and delivery system.

Obviously, the only route to Domino's overtaking Pizza Hut is through vastly increasing the number of units and penetration. Doubling the number of units would have the advantage of moving the prep systems closer to all the delivery points.

Yet Domino's has an overwhelming task in trying to catch Pizza Hut and thereby become No. 1. Pizza Hut is finally set for a major home-delivery push with special kitchens in many of its units. With its seating, Pizza Hut can further boost its current $570,000 average per-unit volume while Domino's, even with deep-dish pizza, can only gain slightly over its current $440,000 average per-unit home-delivery sales.

If Domino's should manage to overtake Pizza Hut in the next decade, such a drive still may be ill-advised. Domino's should be focusing on boosting its profits rather than on pursuing an elusive chase.

While Pizza Hut scored a $153 million operating profit on $2.1 billion revenues in 1988, Domino's operating profit was only $14 million on $1.1 billion revenues. Domino's strategy was to gain market share and emphasize two-for-one pizza promotions.

This year the privately owned Domino's profit picture seemed to improve, but its bottom line could be a lot stronger. A plan to more than double sales and sharply boost market share is not the path to higher profit margins.

At the same time we applaud Monaghan, Black, and the whole Domino's team for their innovation and spirit. Monaghan has stuck to his home-delivery guns through the toughest times in the early 1970s and through much better days. It is just that Domino's apparent strategy to become the No.-1-volume pizza chain is representative of a type of thinking evident at too many companies — a strategy that can engulf them in troubles.

Striving to be the best and to improve performance is admirable. Any plan to become No. 1 in profits also makes sense. To push for more and more sales and a mythical objective of becoming first in any market segment is undoubtedly a tremendous ego boost but by no means the soundest idea.

Domino's wisely is sticking with only home delivery. Nobody — certainly not Pizza Hut — can emulate the degree of success that Domino's has enjoyed in its niche.

Nor should Domino's necessarily aspire to beat Pizza Hut at the volume game or risk overextending the system. Instead, Domino's and other chains should work on boosting their profit percentages and totals — the only scorecard that really counts.

Operators must beware of sacrificing profits in an endless quest for more and more market-share points.

LETTERS

Proposed bill will not protect the handicapped

Editor, NRN:

In reference to your June 26 article, "legislation battles discrimination against disabled job applicants," your reporter missed the importance of the proposed legislation.

If you read it again, you will see that it appears to class as "disabled," and therefore protected, all of the people the enlightened employers are now trying to screen out among job applicants in their efforts to control workers comp costs. That is, those with bad backs and experienced workers compensation claimants will go to the head of the priority list of applicants, along with minorities and other protected groups.

Discriminating against the hiring of the handicapped has been illegal for some time, so that is not the purpose of Sen. Harkins' bill. There is some other motivation for it besides the economic welfare of the handicapped.

The result of this proposed law will be to take away the employers' right to protect himself against hiring professional comp claimants and applicants with bad backs, frail knees, and other chronic ailments that make them a high risk for mega-comp claims.

If this bill, when passed, will do what your article said it will do, the impact it will have on the bottom line of restaurant companies is second only to that of the minimum-wage bill the industry worked so hard to have vetoed by the president recently.

In fact, in such problem jurisdictions as Texas and California, I say this so-called anti-discrimination legislation would be much worse in net cost than a $3.55 minimum wage.

In the regions where I do most of my business, restaurant operators have to pay well over the minimum wage now to get enough help to keep the doors open, but their WC costs continue to escalate. If the industry doesn't get out there and defeat this legislation, too, it will lose the most significant tool now available to it in the control of runaway workers' comp costs.

— William English
risk management consultant
William English Ltd.
Oakton, Va.

Memphis market offers many fine restaurants

Editor, NRN:

The July 10 article concerning Hemmings Restaurant in Memphis, Tenn., was very well written with one exception.

You are being unfair to many independent restaurant operators in Memphis by depicting the market as "dominated by down-home barbecue joints, casual chain dinner houses, and hotel restaurants."

Having lived in Memphis for the last 13 years and as a past president of Dobbs Houses Inc. and currently an owner-operator of a small chain of 24-hour coffee shops, I feel qualified to offer the opinion that the Memphis market has many fine restaurants but obviously not the quantity found in New York, Chicago, Los Angeles, etc.

We wish Hemmings well. But please be assured we were not all sitting around eating barbecue ribs and buffalo wings before Hemmings opened. Thank you.

— E. J. Sullivan
president
CKG Enterprises
Memphis, Tenn.